

ORIGINAL

OPEN MEETING AGENDA ITEM



**Tucson Electric Power
88 East Broadway Blvd., P.O. Box 711
Tucson, Arizona 85702**



0000144085

April 15, 2013

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Re: Notice of Filing – Tucson Electric Power Company's 2013 Cost Containment Report
Decision No. 71256, Docket Nos. E-01933A-05-0650, E-01933A-07-0402

Pursuant to Decision No. 71256 (September 3, 2009), Tucson Electric Power Company hereby files its annual 2013 Cost Containment Report as required by Decision No. 59594 (March 29, 1996).

If you have questions or comments please contact me at (520) 884-3680.

Best regards,

A handwritten signature in black ink that reads "Jessica Bryne". The signature is fluid and cursive.

Jessica Bryne
Regulatory Services

Enclosures: Cost Containment Report

cc: Compliance Section, ACC

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
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COST CONTAINMENT REPORT

TUCSON ELECTRIC POWER COMPANY

2012 COST CONTAINMENT REPORT

The following is a summary of Tucson Electric Power Company's ("TEP" or "Company") cost containment efforts and quantified savings for 2012. A detailed table outlining TEP's savings for new initiatives since the 2011 rate case test year of \$8.3 million is attached as Exhibit A. Additionally, the Company continues to experience actual to budget savings due to constraining new/replacement hires and travel and training in 2012 amounting to \$4.8 million also outlined in Exhibit A.

Contract Renegotiation / Supply Chain Management

The Company implemented a supply chain sourcing effort in 2009 that continues to reduce costs for gasoline, equipment, poles, wires, transformers and hydrogen and saved \$3.1 million in 2012. Negotiations with insurance carriers have also resulted in a savings of \$531K for general liability, director and officer premium and workers compensation. New in 2012 were negotiations for Springerville to return a cash premium, as well as, a modified coal sales agreement resulting in \$779K savings. Additional small renegotiations for better rates amounted to a savings of \$152K. These efforts resulted in a total savings of \$4.8 million for 2012.

Administrative Support Savings

Refinancing initiatives of higher cost debt amounted to a savings of \$2.3M which were offset by higher interest from locking into a lower rate of \$1.2M for a net savings of \$1.1M. The Arizona Department of Revenue approved a method change in uncollectible accounts on sales tax returns resulting in a 2012 savings of \$941,000. Smaller initiatives, which reduced toner costs and increased income tax interest recovery, amounted to \$88,000.

Technology Services

The Company saved an additional \$366K by increasing the use of electronic customer bills and automated bill pay and saving costs on the related postage and bill stock costs. Implementation of a bar code scanner has reduced overtime related to meter reads. TEP has also invested in a fixed area network which has resulted in a savings of \$631K in reduced manual reads.

Generation Expenses

In 2012, the increased use of lower cost employees to replace outside contractors resulted in additional savings of \$400K.

2012 Actual to Budget Savings

TEP instituted company-wide hiring restrictions for 2009 and continued an approval process through 2012. This process saved TEP approximately \$4.4 million compared to budget in 2012.

Travel and training expenses company-wide in 2012 were minimized to achieve a savings of \$435K compared to budget.

EXHIBIT A

Exhibit A

Area	Initiative	Explanation of Initiative	Estimated Savings
Cost Reductions/ Revenue Enhancements since Test Year:			
Contract Renegotiation			
Contract Renegotiation / Supply Chain Mgmt	Savings through Bidding Process (Capital and O&M)	A "Documented Calculated Savings" formula is used by the Procurement & Contracts department to estimate the dollars saved when the competitive bidding process is used to purchase goods and/or services.	\$3.1M
Contract Renegotiation / Supply Chain Mgmt	Border States Cost Containment	Allowed contractors to pick up DG product from supplier reducing inventory and manpower. Negotiated free transportation for moving inventory between UES and TEP facilities. Evaluated Receipts Settlement (ERS) process reducing A/P time matching invoices. Buyback and product substitution to a new, lower-cost manufacturer.	\$212K
Contract Renegotiation / Supply Chain Mgmt	Coal Moisture Credit	The coal sales agreement was modified to credit Springville O&M for increased moisture content in the coal	\$400K
Contract Renegotiation / Supply Chain Mgmt	SGS Property Insurance	Negotiated return cash premium for SGS appraisal prior to renewal.	\$379K
Contract Renegotiation/ Supply Chain Mgmt	General Liability Premium	The General Liability self-insured retention was increased to \$2 million, thereby, reducing the premium substantially.	\$298K
Contract Renegotiation / Supply Chain Mgmt	Director & Officer Premium	An increase in policy limits enables a lower primary insurance premium rate due to additional limits purchased and ability to receive premium credits.	\$164K
Contract Renegotiation / Supply Chain Mgmt	Workers Comp	Reduction in OSHA recordables has reduced Workers Comp losses	\$69K
Contract Renegotiation / Supply Chain Mgmt	Procurement Card Rebate	Negotiate better rebate 70 basis points on \$7.5M spend starting in June 2012.	\$52K
Contract Renegotiation / Supply Chain Mgmt	Office Depot Cost Reduction	Negotiated a better rebate and better product discount.	\$46K
Contract Renegotiation / Supply Chain Mgmt	Renegotiations	Consolidated crane rentals to one provider; negotiated to eliminate cancellation fee from Waste Management; used 3rd party to deliver new vehicles and pick up old from various Unisource locations.	\$54K
Adm Support Savings			
Adm Support Savings	Bad Debt Sales Tax Deductions	TEP identified an opportunity to change the calculation for uncollectible accounts on its sales tax returns. As a result, the Arizona Department of Revenue approved the new methodology which will provide savings on an ongoing basis.	\$941K
Adm Support Savings	Reduce Carbon Footprint	Minimize desktop printers by redirecting to multifunctional devices. Encourage employees to use lower cost printers. Centralize toner purchases in Business Services area to ensure toner is purchased from low cost provider.	\$71K
Adm Support Savings	Income Tax Interest Recovery	Retain Law Firm to investigate IRS interest calculations for 2007 and 2008 tax years.	\$17K
Adm Support Savings	Interest Expense Reduction	Refinancing initiatives of higher cost debt amounted to savings of \$2.3M offset by higher interest from locking in low rate of \$1.2M for a net savings of \$1.1M.	\$1.1M
Technology Services	E-Bill	Savings in mail services due to volume changes and use of E-bill. Savings seen in postage, envelopes, and bill stock. Also less use of paper from internal customers. More use of soft copy instead of hard copy.	\$366K
Technology Services	Decrease in Meter Reads	Fixed area network is replacing manual meter reads.	\$631K
Technology Services	Meter Data Bar Code Reader	Implementation of bar-code scanner has reduced the amount of overtime required	\$37K
Generation Expenses:			
Generation Expenses:	SGS Vacuum Trucks	Reduced outside service costs by utilizing two SGS employees to run a vacuum truck 40 hours/week doing routine work in the coal yard cleaning the oily waste sump and the RCD sump.	\$200K
Generation Expenses	SGS Fuel Truck Operation	Reduced SGS fuel truck operation from two heavy equipment mechanics to one light equipment mechanics by placing a backup camera on the truck.	\$200K
2012 Actual to Budget Savings:			
Employee and Other Compensation	Hiring Restrictions	Hiring restrictions requiring Sr. VP approval for any new hires resulted in continued savings.	\$4.4M
Discretionary Expenses	Travel & Training	Economic conditions forced reductions in many areas; this amount represents the dollars unspent (given up) by departments company-wide for 2012.	\$435K